

World Automotive Outlook

by Thomas F. O'Grady

Although the less developed countries (LDCs) had a remarkable growth phase during the 1970s and will experience a still strong growth rate during the latter part of the 1980s, they will not become the major passenger car market that some observers have anticipated.

Clearly, many LDC government accelerated growth policies are now facing repercussions in terms of energy conservation, high inflation and large foreign debts. As a result, to combat their current troubles, the LDCs have adopted strategies of protectionism and wage reduction to reduce domestic demand for imports and help balance foreign trade.

In terms of auto purchases, the LDC share of total world passenger car demand is expected to increase by almost seven percent over the next five years, but actual new car registrations will reach a volume of only 7 million by 1990, accounting for less than 20% of the world market.

Even though the passenger car market in the LDCs will more than double in the next ten years—a much faster rate than that of the more developed countries (MDCs)—only 38% of the total net increase in demand volume will be in the LDCs.

Indeed, the major market over the next 10 years will remain in the MDCs, with 30 million new car registrations estimated for 1990. This is primarily due to the fact that the baby boom generation has matured and entered the MDC workforce and will become more productive as it gains job experience. Increased productivity, coupled with decreased labor force growth, will result in lower MDC unemployment and higher productivity. The decline in labor force growth and the aging of the baby boom workers will result in a fairly stable adult population, but a decline in the percentage of the population that is of working age (15-64). As this population ages and workers retire, the number of people of working age will decrease. This stable adult population represents the primary passenger car market in the MDCs.

There will be slower automotive



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growth in the industrialized countries, however, as a result of the forthcoming decelerating growth of automobile density. For the most part countries with high densities in 1975, such as New Zealand, Canada and the United States, will exhibit much smaller growth increases than countries such as Italy, Switzerland and West Germany which had a relatively lower density in the same year.

Although average density is still growing moderately, the net addition to the MDCs' car park is decreasing.

This can be attributed to declining population growth in the industrialized countries. This slower population growth means that demand for automobiles in the MDCs will primarily become replacement demand for passenger cars already scrapped.

The oil price shocks of the 1970s have also taken their toll on the passenger car markets of the MDCs. More important, however, is the plight LDCs face in terms of energy.

In many LDCs, energy consumption parallels the level of industrialization. Nations dependent on imported oil are expected to have a more delayed motorization growth—attri-

butable to the political curtailment of domestic demand—as they lessen the burden of the debts that such vulnerability brings about.

Even the oil producing nations must adjust their economies by leaning toward more labor-intensive industries to reduce unemployment, redistribute income, and subsequently, boost domestic demand.

During the 1970s, the LDCs exhibited a healthy import demand for MDC products, increasing their share of world exports from 19.5% in 1973 to 26.3% in 1983. However, the substantial debt burdens accumulated by the non-oil exporting developing nations to finance import purchases has caused an international financial crises, and the availability of loans to pay for future purchases is very uncertain.

On the export side, the LDCs face increased protectionist policies from the industrialized nations. Indeed, European nations have sought roll-backs and slower future growth rates for imports of textiles from LDC suppliers, and the US Government has also tightened controls in these areas.

The US has also experienced a buildup of sentiment against imports of processed raw materials and goods produced on the basis of artificially cheap energy and official incentives; policies that are prevalent among developing nations. The implementation of such actions by the MDCs could induce countermeasures by the developing nations, which would further restrict trade flows.

As the world emerges from the current recession, protectionism will undoubtedly become more common.

With all nations trying to reduce imports and increase exports simultaneously, market conditions will become distorted and international trade could be stifled. In fact, the collective global effect of widespread efforts to limit trade and boost domestic content could even lead to world economic contraction. Corporate planning must be broadened to include alternate scenarios of world market conditions. As this occurs, in conjunction with the shift of labor-intensive industry toward the LDCs, world trade should improve by the 1990s. ■

Passenger Car Demand Industrialized Vs. Developing Countries (Millions)

	Indust.	devel.
1980	23.6	3.4
1985	27.1	5.6
1990	30.0	7.3